



# U.S. SENATE BANKING COMMITTEE

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**CONTACT: Justine Sessions**  
**202-224-0345**

**Statement of Senator Dodd, Chairman of the Senate Banking Committee, in  
Reaction to Proposed Fed Housing Rules**

“Regrettably, Chairman Bernanke, Governor Kroszner and the Federal Reserve Board took a significant step backwards today. The Board did not even have the courage of its convictions -- the Board weakened its earlier guidance on requiring an originator to fully analyze a borrower’s ability to repay the mortgage at the fully indexed rate, the most fundamental measure of good lending. Because this rule requires a showing of a ‘pattern and practice’ of violations, no individual subprime borrower would be guaranteed the protections that the earlier guidance promised to extend -- that the mortgage they receive will be affordable to them, even after the payment shock hits. In fact, in a joint report with HUD in 1998, the Board acknowledged that the ‘pattern and practice’ standard is very difficult to prove, and suggested that the Congress eliminate the standard.

“In addition, the Board failed to adequately address the problems of prepayment penalties for subprime borrowers, giving its blessing, in effect, to this harmful, ubiquitous, equity-stripping feature of subprime loans; it fails to prohibit yield-spread premiums, which are used to push borrowers into more expensive loans than those for which they qualify.

“The proposal does require escrows for one year, but the opt-out raises concerns as to whether that might be used as a tool to ‘flip’ borrowers into another, wealth-stripping refinance.

“Ultimately, this proposal is deeply disappointing. It fails the most fundamental test of consumer protection with which the Board was charged in 1994. It raises serious questions as to whether the Federal Reserve is the appropriate institution to house consumer protection functions. This is a clear signal that legislation is necessary to help protect homeowners from abusive and predatory lending practices.”